

THE

Kroger

CO. ANNUAL REPORT 1957

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Bankers Trust Company, New York

REGISTRARS

The Central Trust Company, Cincinnati
The Chemical Corn Exchange Bank, New York



Kroger

ANNUAL REPORT 1957

Table of Contents

Highlights	2
President's Letter	3
Balance Sheet	10
Statement of Income.....	12
Ten Years of Progress.....	14

THE KROGER CO. • 35 EAST SEVENTH STREET • CINCINNATI 2, OHIO



HIGHLIGHTS

	1957	1956	Increase
SALES	\$1,674,123,593	\$1,492,552,233	12%
NET INCOME BEFORE TAXES	\$ 41,505,207	\$ 34,515,450	20%
NET INCOME	\$ 20,635,207	\$ 17,071,250	21%
NET WORTH	\$ 143,730,410	\$ 130,159,964	10%
CAPITAL EXPENDITURES	\$ 46,085,612	\$ 41,956,118	10%
STORES	1421	1476	—4%
NEW STORES OPENED	140	149	—6%



PRESIDENT'S LETTER

To Our Shareowners:

The year 1957 was one of continued growth in sales and earnings.

Earnings

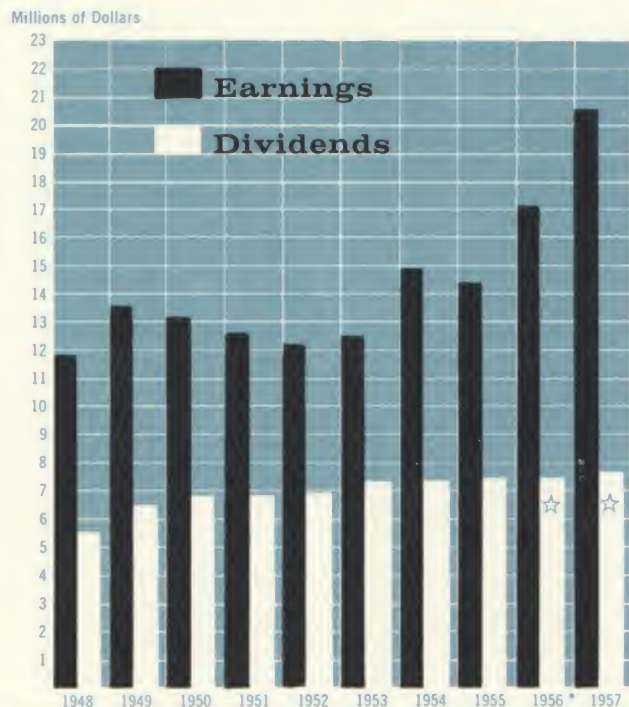
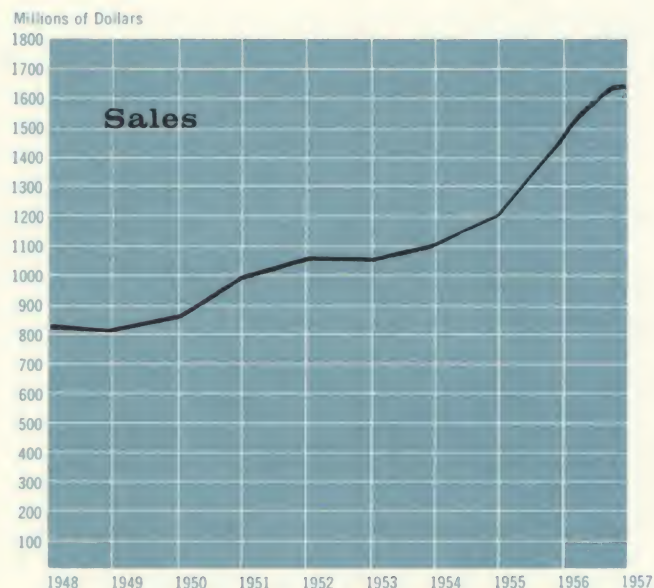
Net income was \$20,635,207, an increase of 21% over 1956. Net income was equal to \$5.10 each on the 4,048,138 shares outstanding at the year end. This compares with 1956 net income of \$4.22 per share on the same number of shares and \$4.41 per share on the 3,872,307 shares outstanding on December 29, 1956. Reported 1957 net income is after a year-end charge equal to \$0.17 per share after taxes, resulting from the company's use of the Lifo inventory method. Reported net income for 1956 was after a similar charge of \$0.25 per share.

Sales

Sales of \$1,674,123,593 exceeded 1956 by 12%. More than three-fourths of this gain represented increased tonnage, the remainder higher prices. Average sales per store were \$1,157,000 in 1957 as compared to \$983,000 in 1956 and \$741,000 in 1955.

Financial

Cash at the year end was \$42,927,467 and net working capital \$73,136,938. Both are considered adequate for current operating needs. Retail inventories were \$99,007,136, equal to 24 days' sales, an improvement of 5% over the 1956 year end.



Cash dividends of \$2.00 per share were paid in 1957, plus a year end stock dividend of 4%. The stock dividend permitted added retention of earnings, providing funds for Kroger expansion. The equity of common shareowners at the year end was \$35.50 per share, an increase of \$3.19.

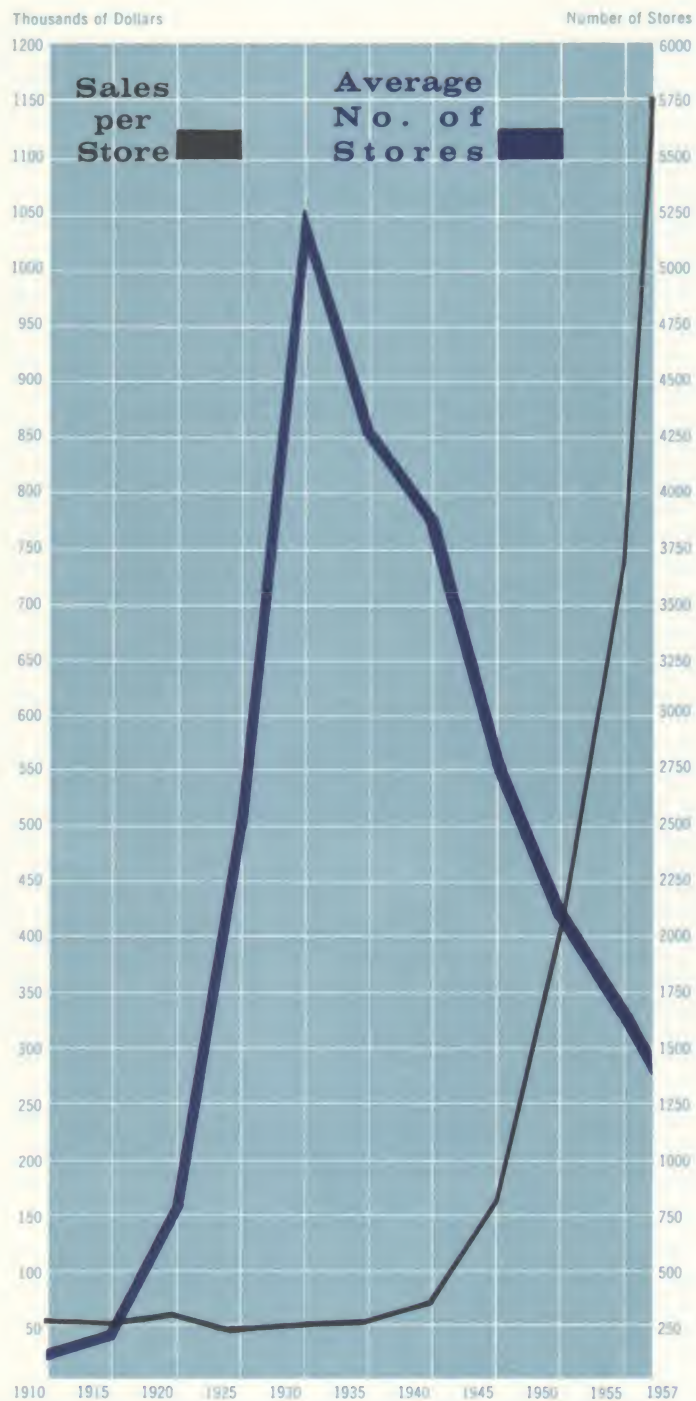
Real Estate Corporation

Gromarco Inc. was organized in 1956 by Kroger to own and lease to Kroger, stores, distribution centers and manufacturing facilities. Gromarco arranged the sale of \$12,000,000 of 5 1/4% secured notes during 1957. This is in addition to the \$13,500,000 of notes reported last year. Gromarco has now acquired \$17,539,000 of Kroger occupied properties.

Stores

One hundred and forty new stores were added in 1957. Major remodels of 37 stores were completed. We closed 195 of our smaller and older stores. The net effect of the 1957 store program was to increase annual sales potential by \$145,800,000 and store space by 1,174,000 square feet. Capital expenditures for store equipment and leasehold improvements were \$20,247,363.

It is the long-established policy of Kroger to lease stores built and owned by individual landlords, or shopping center developers. In recent years the company has found it necessary in certain circumstances to build its own stores and shopping centers and sale-lease them to long-term investors. In most instances these stores are sold to Gromarco. Our 1957 store program included fifteen Gromarco stores. Seven stores are now under construction by Kroger. Capital expenditures for store land and buildings were \$5,671,703.



Distribution Centers

Our rapid sales growth necessitates continued enlargement of distribution centers. In 1957 we occupied new centers in Fort Wayne, Grand Rapids, and Shreveport. Construction is under way in Cleveland, Detroit, and Indianapolis. Enlargement of existing facilities has been undertaken in Louisville, Nashville, Pittsburgh, and Toledo. Capital expenditures for distribution centers were \$12,787,257.

Manufacturing

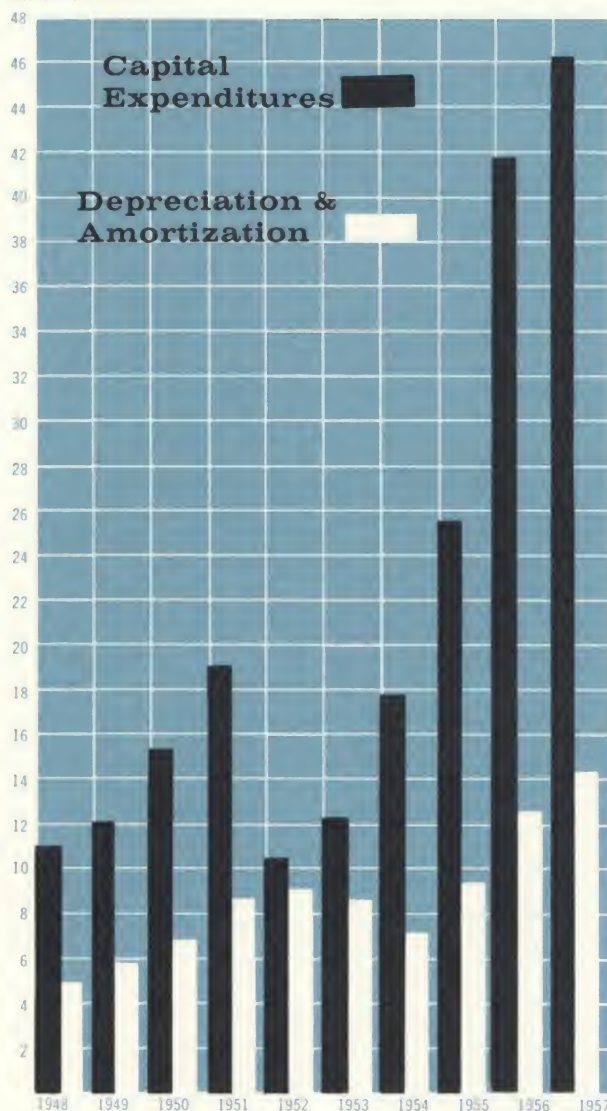
Our new Detroit and Shreveport bakeries should be in operation in the second half of 1958. Our new bakeries in Cleveland and Indianapolis should begin operations early in 1959. Installation of additional processing equipment has doubled the capacity of our instant coffee plant. Enlarged facilities are being constructed for egg grading plants in Wabash, Indiana and Hudson, Michigan. Capital expenditures for manufacturing were \$3,859,261.

Transportation

We are continuing to expand our transportation fleet to handle increased tonnage and to permit greater operating economies. At the end of 1957 we owned 882 tractors and 1,783 trailers. Capital expenditures for transportation equipment were \$3,100,223.

Capital expenditures for all purposes were \$46,085,612 in 1957. Depreciation and amortization were \$14,504,513.

Millions of Dollars



Management

In 1957 Kroger continued the management development program initiated several years ago. As stated in last year's report, our Kroger team is demonstrating the benefits of a long-term program of selection, evaluation and development.

Increased authority and responsibility have been given to our store managers. Most store managers now participate in our incentive bonus plan. Improved store operations reflect the benefits from this program. Ownership of shares in the company by Kroger employees has increased interest in improved results. Through the Kroger Employees' Savings and Profit Sharing Plan the 21,835 member employees collectively own 60,309 shares.

Mr. Charles W. Dupuis has resigned as a director of the company after almost thirty years of loyal and effective service. Mr. Dupuis has been influential in shaping the progress and financial stability of the company. We will continue to receive the benefit of his wisdom and experience as a director emeritus. Mr. Fred C. Foy was elected a director to succeed Mr. Dupuis. Mr. Foy is president of the Koppers Company, Inc., Pittsburgh, Pa. He was a vice president of the J. Walter Thompson advertising agency until 1948 when he joined the Koppers Company. Mr. Foy is active in civic work in Pittsburgh and served as General Chairman of the United Fund of Allegheny County in 1956.



ENTERING OUR 75th YEAR

Early in the morning of July 1, 1883, Bernard H. Kroger proudly turned the key in the front door of a small grocery store on Cincinnati's riverfront, put on an apron and was ready to wait on his first customer. No one knows the identity of the first customer, but that first sale set in motion a series of events which built an initial investment of \$722 into one of the world's largest retail organizations.

Barney Kroger had definite ideas on how to run a successful business—and some of them were revolutionary at the time. He recognized from the start that the customer was the most important ingredient for success. He decided to be "more particular than the most particular customer." He made it his responsibility to see that the customer received good quality merchandise at reasonable prices. This idea was startling in an era when "buyer beware" was the accepted merchant-customer relationship.

Almost 50 years later this concern for the customer's welfare was to find expression in the opening of the Kroger Food Foundation. This was the first scientific testing laboratory operated by a food retailer to establish and maintain standards of quality. It has continued to safeguard the quality of food sold in Kroger stores through the years.

Many of the developments taken for granted in the modern supermarket began as revolutionary ideas introduced by Mr. Kroger. He recognized the advantages of buying for a quick turnover at a small profit. A great believer in the power of advertising, he delivered groceries in a bright red wagon emblazoned with his name. He was among the first to use newspaper display advertising on a regular basis. He introduced fresh meat departments in grocery stores and operated a bakery to supply stores on a daily basis with fresh bread—priced at $21\frac{1}{2}\text{¢}$ a loaf.

75 Years of Progress



Parking



Accounting



B. H. Kroger and his little grocery store apparently pleased the customers and he prospered. He was able to open a second store two years after the first. By 1891 Mr. Kroger owned seven stores.

On April 3, 1902, the company with 40 stores was incorporated. Sales that year were \$1,751,000. The company paid its first cash dividend. Dividends have been paid every year since and always from current earnings—an uninterrupted record for 56 years.

Kroger extended its operations beyond Cincinnati in 1903 through the purchase of two stores in Dayton and twenty-five in St. Louis. The first big merger, in 1917, brought Kroger into Detroit with the acquisition of 125 stores. After World War I expansion continued into other states. In the year 1927 Mr. Kroger sold his interest in the company to the public and shortly thereafter retired from the active management. In the following year 1,610 stores were acquired in eleven middle-western and southern states. At the peak of the boom in 1929 the number of stores reached its all-time high of 5,575. Sales were \$286,611,000.

The depression brought a period of reorganization and consolidation to Kroger. The number of stores was reduced to 3,727 by 1940. Sales in that year were \$260,417,000.

With the end of World War II the company embarked on a rebuilding and expansion program designed to produce greater earnings through higher volume in fewer but larger stores. The shift from

1883



1958

small low-volume units to modern high-volume food department stores has accelerated in recent years. Since 1946 average store volume has increased five-fold and store area doubled, while the number of stores has been virtually halved.

The rapid growth of the business required the enlargement and replacement of the company's distribution and manufacturing facilities. Old fashioned multi-story warehouses gave way to modern one-floor distribution centers.

The importance of people in building for the future was increasingly emphasized. Recruiting, training and development were stressed. Kroger's organization structure was decentralized to provide quicker and better decisions.

During its first three quarters of a century The Kroger Co. has blazed many trails in the changing pattern of food merchandising. It has been a long journey from B. H. Kroger's first little red-front grocery store to the modern Kroger food department store. Seventy-five years of progress and success is the solid foundation on which Kroger is building its future.

Respectfully submitted,

President

February 7, 1958.



Meat Cutting



Trucking

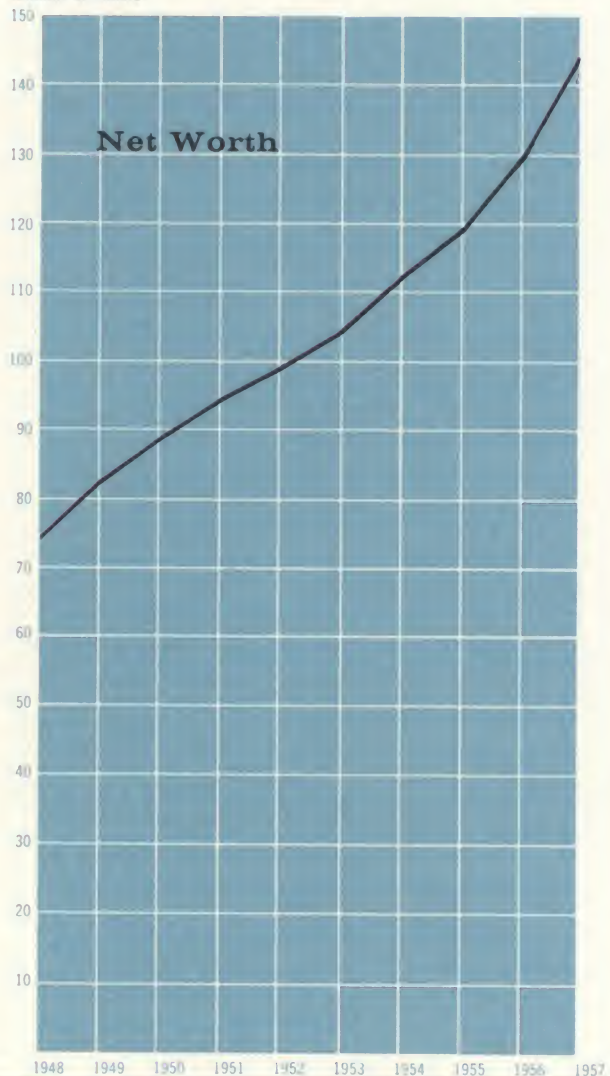


THE



CO. • CONSOLIDATED BALANCE SHEET

Millions of Dollars



ASSETS

	Dec. 28, 1957	Dec. 29, 1956
Cash	\$ 42,927,467	\$ 41,518,152
Receivables.....	8,823,382	6,363,256
Merchandise inventories (Note 1).....	111,474,382	106,274,996
Store and general supplies.....	6,364,203	6,153,026
Prepaid insurance, rent and taxes.....	2,322,597	1,896,771
TOTAL CURRENT ASSETS.....	171,912,031	162,206,201
Investment in subsidiary insurance company, at cost (Note 2).....	1,865,489	1,776,361
Land, at cost or less.....	3,556,763	3,531,451
Leaseholds and leasehold improvements, net.....	22,115,092	19,771,560
Buildings, at cost or less.....	17,180,905	13,734,306
Machinery and equipment, at cost.....	129,316,636	115,916,605
Less allowance for depreciation.....	(63,302,755)	(57,425,543)
NET FIXED ASSETS.....	108,866,641	95,528,379
TOTAL ASSETS	\$282,644,161	\$259,510,941

DECEMBER 28, 1957 AND DECEMBER 29, 1956

LIABILITIES

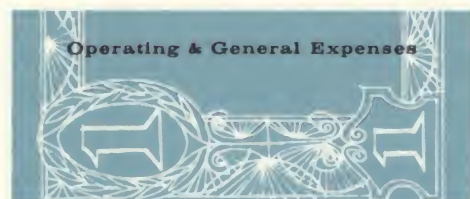
	Dec. 28, 1957	Dec. 29, 1956
Notes payable, banks.....	\$ —	\$ 6,370,000
Accounts payable	54,278,780	45,423,900
Accrued expenses	26,399,689	22,164,591
Provision for federal taxes.....	18,096,624	16,302,114
TOTAL CURRENT LIABILITIES.....	98,775,093	90,260,605
Long-term notes (Note 3)	34,700,000	34,821,714
Reserve for deferred federal taxes (Note 4).....	3,150,000	1,980,000
Employees' benefit fund.....	2,288,658	2,288,658
CAPITAL		
Preferred capital stock, par \$100:		
Outstanding:		
6% Series	27,900	27,900
7% Series	7,600	7,600
Common capital stock, par \$1 (Note 5):		
Authorized: 5,000,000 shares		
Outstanding: 1957, 4,048,138 shares; 1956, 3,872,307 shares.....	52,356,621	42,467,950
Accumulated earnings (Note 3).....	91,338,289	87,656,514
TOTAL CAPITAL	143,730,410	130,159,964
TOTAL LIABILITIES & CAPITAL.....	\$282,644,161	\$259,510,941



WHERE THE KROGER SALES DOLLAR GOES



81.8%



15.0%

Local, State, Federal Taxes	1.9%
Dividends	.5%
Reinvested in the company	.8%

Consolidated Statement of Income

Years Ended December 28, 1957 and December 29, 1956

	1957	1956
Sales	\$1,674,123,593	\$1,492,552,233
Cost of sales.....	1,370,175,183	1,226,608,294
Operating and general expenses.....	262,443,203	231,428,489
Total	<u>1,632,618,386</u>	<u>1,458,036,783</u>
Income before federal taxes on income.....	41,505,207	34,515,450
Federal taxes on income.....	<u>20,870,000</u>	<u>17,444,200</u>
Net income	\$ 20,635,207	\$ 17,071,250

Consolidated Statement of Accumulated Earnings

Year Ended December 28, 1957

Accumulated earnings—December 29, 1956.....	\$87,656,514
Net income for 1957.....	<u>20,635,207</u>
	108,291,721
Cash dividends	\$7,768,312
Transferred to common capital stock on account of 4% stock dividend.....	<u>9,185,120</u>
Accumulated earnings—December 28, 1957.....	<u>16,953,432</u>
	\$91,338,289

Notes to Financial Statements

1. Merchandise inventories are valued in part on the Lifo basis and in part at the lower of cost or market.
2. The investment in Selective Insurance Company, an insurance company licensed under the laws of the State of Ohio, represents the entire voting preferred stock and 38.7% of the common capital stock of that company, and is carried on the books at cost. At December 31, 1957, the company's equity in the net assets of the insurance company determined in accordance with the rules of the Commissioner of Insurance of the State of Ohio, amounted to \$1,445,720. Total assets of the insurance company so determined amounted to \$6,528,445 consisting principally of cash, U. S. Government securities and other marketable securities aggregating \$6,369,796. Operations of the insurance company for the year 1957 resulted in a decrease in surplus of \$96,650.
3. Notes for \$14,000,000 bearing interest at 3.1% mature October 1, 1971. Annual prepayments of \$700,000 without premiums are required beginning October 1, 1961. Any of the notes may be prepaid at the option of the company at premiums provided in the loan agreement. Payments of cash dividends are limited to earnings subsequent to December 28, 1957, plus \$67,918,575 of accumulated earnings existing on that date. Notes for \$20,000,000 were issued under a revolving credit agreement dated June 1, 1955. Individual notes mature in 90 days but are renewable up to June 1, 1958 at 3% interest. They are convertible on that date into 5-year notes bearing interest at a rate of $\frac{1}{8}$ of 1% above the then prime rate, but not to be less than 3% nor more than 3.25%. Notes for \$700,000 are obligations assumed by The Kroger Co. as a part of the liquidation of a subsidiary company.
4. Provision for potential tax liability which may be incurred in future years as accelerated depreciation allowances decline. Prior to 1957 this account was included in the Provision for federal taxes.
5. Options to officers and executives to purchase 297,162 shares of Kroger common stock were in force at December 29, 1956. The 1956 Option Plan, approved by shareowners, made available for options 200,000 shares. Option transactions during the year may be summarized as follows: granted 2,100 shares; exercised 20,151 shares at \$29.82 to \$49.00 per share; expired or cancelled 2,991 shares. Options to purchase 287,178 shares were in force at December 28, 1957. Shares available for options at the beginning and close of the year were 63,831 and 65,325 respectively. Options for 54,249 shares were exercisable at December 28, 1957.

Report of Certified Public Accountants

To the Board of Directors,
The Kroger Co.
Cincinnati, Ohio

We have examined the consolidated balance sheet of The Kroger Co. and subsidiary companies as of December 28, 1957, and the related consolidated statements of income and accumulated earnings for the fiscal year (fifty-two weeks) then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of income and accumulated earnings present fairly the consolidated financial position of The Kroger Co. and subsidiary companies at December 28, 1957, and the results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

Lybrand, Ross Bros. & Montgomery
Certified Public Accountants

Cincinnati, Ohio
February 7, 1958

TEN YEAR STATISTICAL SUMMARY

	1957	1956	1955	1954	1953
SALES.....	\$1,674,123,593	\$1,492,552,233	\$1,219,474,812	\$1,108,694,168	\$1,058,608,651
NET INCOME BEFORE TAXES...	\$ 41,505,207	\$ 34,515,450	\$ 27,994,575	\$ 27,326,912	\$ 29,309,664
NET INCOME.....	\$ 20,635,207	\$ 17,071,250	\$ 14,368,292	\$ 14,912,912	\$ 12,528,664
NET INCOME PER SHARE (1)...	\$5.10	\$4.24	\$3.59	\$3.73	\$3.15
DIVIDENDS PER SHARE.....	\$2.00 (2)	\$2.00 (2)	\$2.00	\$2.00	\$2.00
CASH.....	\$ 42,927,467	\$ 41,518,152	\$ 40,696,076	\$ 34,627,962	\$ 41,792,719
MERCHANDISE INVENTORIES...	\$ 111,474,382	\$ 106,274,996	\$ 95,112,775	\$ 84,667,841	\$ 81,196,446
NET WORKING CAPITAL.....	\$ 73,136,938	\$ 71,945,596	\$ 79,180,095	\$ 67,522,366	\$ 68,707,575
NET FIXED ASSETS.....	\$ 108,866,641	\$ 95,528,379	\$ 79,616,588	\$ 59,575,135	\$ 50,451,043
ACCUMULATED EARNINGS.....	\$ 91,338,289	\$ 87,656,514	\$ 85,163,541	\$ 78,200,902	\$ 70,670,362
NET WORTH.....	\$ 143,730,410	\$ 130,159,964	\$ 119,910,406	\$ 112,585,204	\$ 104,646,321
NET WORTH PER SHARE (1)...	\$35.50	\$32.31	\$29.91	\$28.17	\$26.27
NUMBER OF SHAREOWNERS...	26,583	26,621	26,596	25,501	25,914
NUMBER OF EMPLOYEES.....	39,389	36,807	33,705	30,320	29,105
NUMBER OF STORES.....	1,421	1,476	1,587	1,678	1,810
TOTAL STORE AREA (Square Feet)	15,092,774	13,918,774	12,750,326	11,318,339	11,059,602

(1) Adjusted for 4% common stock dividend in 1956 and 1957 and 2 for 1 split in 1950.

(2) Plus 4% stock dividend.

(3) Adjusted for 2 for 1 common stock split in 1950.

1952	1951	1950	1949	1948
\$1,051,849,935	\$997,086,223	\$861,242,642	\$807,739,440	\$825,668,323
\$ 27,935,387	\$ 21,710,540	\$ 24,574,542	\$ 22,926,564	\$ 19,740,720
\$ 12,110,087	\$ 12,657,940	\$ 13,087,542	\$ 13,636,564	\$ 11,811,120
\$3.05	\$3.19	\$3.29	\$3.43	\$2.97
\$1.90	\$1.85	\$1.875 (3)	\$1.75 (3)	\$1.50 (3)
\$ 40,078,625	\$ 30,128,288	\$ 25,869,452	\$ 20,300,337	\$ 19,745,290
\$ 77,143,349	\$ 79,170,757	\$ 72,223,385	\$ 64,380,938	\$ 63,956,574
\$ 65,884,745	\$ 61,528,850	\$ 49,918,283	\$ 51,406,979	\$ 50,295,776
\$ 47,843,817	\$ 47,087,347	\$ 38,829,770	\$ 31,018,937	\$ 25,104,906
\$ 65,501,630	\$ 60,373,344	\$ 54,513,661	\$ 48,316,510	\$ 41,110,925
\$ 99,216,265	\$ 94,090,179	\$ 88,230,496	\$ 82,033,545	\$ 74,828,460
\$24.96	\$23.68	\$22.20	\$20.64	\$18.82
26,088	26,254	26,144	27,041	27,436
28,396	26,864	25,775	26,161	24,969
1,891	1,978	2,054	2,190	2,349
10,810,237	10,613,701	10,217,453	9,981,519	8,844,377



KROGER SERVES THE HEART OF AMERICA...from the Great Lakes to the Gulf



KROGER'S NEW HEADQUARTERS

Architect's drawing of the 25-story \$9,000,000 Kroger Building to be completed in Cincinnati during 1959. The building, 400,000 square feet and third highest in Cincinnati, will be finished in a wrap around porcelain enamel metal skin. Features will include air-conditioning throughout and a 400-car garage. The Kroger Building will be owned and operated by Milner Enterprises, Inc. of Jackson, Mississippi, and will house general offices of The Kroger Co., central area long lines offices of the American Telephone and Telegraph Company, and offices of numerous other national and midwestern companies.



